

Message Text

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E. O. 11652: N/A
TAGS: ECON, OECD, BE
SUBJECT: EDRC REVIEW OF BELGIUM: QUESTIONS AND COMMENTS

REF: USOECD PARIS 13667

1. SUMMARY: WITH ONLY A CARETAKER GOVERNMENT, THE BELGIAN EDRC DELEGATION WILL HAVE TROUBLE DISCUSSING FUTURE ECONOMIC POLICY. THE DISCUSSION MIGHT THUS BE MOST USEFUL IF IT EXPLORE ALTERNATIVE POLICY OPTIONS AND THEIR IMPLICATIONS. WHILE NOT DIFFERING MARKEDLY IN THEIR ANALYSIS OF THE CURRENT SITUATION AND GENERAL 1977 PROJECTIONS, THE BELGIANS ARE LIKELY TO RESIST SECRETARIAT PRESSURES FOR MORE EXPANSIVE POLICY MEASURES. THE EMBASSY SUGGESTS THAT, IN ADDITION TO POINTS IN REFTTEL, U.S. QUESTIONING FOCUS ON BELGIUM'S UNBALANCED FISCAL STRUCTURE AND ITS IMPLICATIONS FOR THE INVESTMENT CLIMATE, THE EFFECT OF A CONTINUED EXPENSIVE BF ON THE BELGIAN EXTERNAL POSITION AND WEAKER INDUSTRIAL SECTORS, AND THE OUTLOOK FOR OFFICIAL INTERVENTION IN OUTMODED AREAS OF THE ECONOMY. END SUMMARY.

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2. BELGIUM IS BETWEEN GOVERNMENTS. ITS DELEGATION AT FRIDAY'S EDRC REVIEW WILL THUS HAVE DIFFICULTY IN DISCUSSING FUTURE ECONOMIC POLICY. AT THE SAME TIME, THE REVIEW, ONCE CONCLUDED, WILL INEVITABLY FORM ONE ELEMENT OF THE OVERALL INTERNATIONAL ENVIRONMENT IN WHICH THE NEW GOVERNMENT WILL ACT. WE BELIEVE THEREFORE THAT THE U.S.

DELEGATION COULD BEST USE THE DAY TO ENCOURAGE A THOROUGH DISCUSSION OF ALTERNATIVE ECONOMIC POLICY OPTIONS FOR BELGIUM AS WELL AS THEIR IMPLICATIONS FOR THE TRADING AND INVESTMENT CLIMATE IN BOTH DOMESTIC AND INTERNATIONAL TERMS.

3. WE HAVE DISCUSSED THE SECRETARIAT'S DRAFT SURVEY (EDR(77)12) WITH BELGIAN OFFICIALS WHO WILL PARTICIPATE IN THE REVIEW. IN GENERAL, THESE OFFICIALS HAVE LITTLE QUARREL WITH THE SECRETARIAT'S MACROECONOMIC PROJECTIONS FOR 1977. ALTHOUGH SOME TIMID SIGNS OF ECONOMIC REVIVAL ARE APPEARING, THEY AGREE THAT INDUSTRIAL PRODUCTION IS STILL SLUGGISH, AND UNEMPLOYMENT, ALTHOUGH EASING, WILL REMAIN HIGH TO YEAR'S END. THE BELGIAN DELEGATION THEREFORE MAY NOT ATTEMPT TO DEFEND THE GOVERNMENT'S OVERLY OPTIMISTIC 3.4 PERCENT REAL GNP GROWTH ESTIMATE, WHICH WAS DEVELOPED 12 MONTHS AGO AND RETAINED THIS LONG ONLY FOR BUDGETARY COSMETICS. GOVERNMENT ANALYSTS ARE NOW PRIVATELY RESIGNED TO A REAL GNP GROWTH RATE OF BETWEEN 2.5 AND 3 PERCENT PUTTING THEM IN THE SAME BALLPARK WITH THE SECRETARIAT.

4. ON PRICES, THE BELGIAN EXPERTS AGREE THAT INFLATION WILL PROBABLY PICK UP OVER THE LAST EIGHT MONTHS OF THE YEAR DUE MAINLY TO HIGHER COSTS FOR IMPORTED MATERIALS AND THE TVA INCREASES OF THE EGDMONT PLAN. THEY PROJECT A SOMEWHAT LOWER YEAR-TO-YEAR INFLATION RATE OF AROUND 7 PERCENT FOR THE YEAR, HOWEVER.

5. ON SECRETARIAT'S MAJOR RECOMMENDATION--THAT GOVERNMENT POLICY BECOME MORE STIMULATIVE--THE BELGIAN DELEGATION IS LIMITED OFFICIAL USE

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LIKELY, HOWEVER, TO BE SKEPTICAL. THE QUESTION IS HOW THIS COULD BE DONE. WITH THE BELGIAN FRANC CURRENTLY STRONG, MONETARY POLICY IS EASY; THE NATIONAL BANK JUST LOWERED ITS REDISCOUNT RATE (TO 6.5 PERCENT) FOR THE THIRD TIME THIS YEAR, AND MONEY MARKET RATES ARE BACK AROUND WHERE THEY WERE BEFORE THE TWO BF SPECULATIVE CRISES IN 1976. ALL THAT IS LEFT IS FISCAL PUMP-PRIMING, BUT THIS COURSE WOULD SEEM TO FLY IN THE FACE OF THE SECRETARIAT'S JUSTIFIABLE ALARM AT BELGIUM'S DETERIORATING BUDGET/PUBLIC DEBT SITUATION. BECAUSE OF ITS PERNICIOUS EFFECT ON BOTH THE WAGE INDEXATION SYSTEM AND BF STABILITY, THE BELGIANS STILL PERCEIVE INFLATION AS A MAJOR--AND PERHAPS STILL THE MAJOR--PROBLEM. EMPHASIS ON JOB CREATION COULD INCREASE WITH ENTRY OF THE SOCIALISTS INTO THE GOVERNMENT; BUT PRIME MINISTER TINDEMANS, NOW IN AN ENHANCED POLITICAL POSITION, AND HIS SUPPORTERS WILL CONTINUE TO PLACE PRIMARY IMPORTANCE ON LIMITING COSTS AND THE BUDGET DEFICIT. THERE IS ALSO WIDESPREAD DOUBT IN THE GOVERNMENT THAT FISCAL STIMULUS COULD DO MUCH ABOUT UNEMPLOYMENT IN ANY CASE, AT LEAST IN

THE SHORT TERM, GIVEN ITS LARGE STRUCTURAL COMPONENT AS WELL AS THE GENERAL ECONOMY'S HEAVY RELIANCE ON FOREIGN RATHER THAN DOMESTIC DEMAND.

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6. IN ADDITION TO THE EXCELLENT POINTS RAISED REFTTEL, SOME QUESTIONS OR COMMENTS THAT USOECD MIGHT ALSO CONSIDER ARE AS FOLLOWS:

A. ATTENTION SHOULD BE GIVEN TO THE SECRETARIAT'S CONTRADICTORY RECOMMENDATIONS ON FISCAL POLICY NOTED ABOVE. ONE COULD ALSO ASK THE BELGIANS WHAT ONGOING PROGRAMS HAVE BEEN ESTABLISHED OVER THE PAST YEAR TO REFORM CURRENT BUDGET SPENDING, AND WHAT OTHER POSSIBILITIES EXIST FOR FUTURE ACTION. (TINDEMANS HAS SPOKEN VAGUELY OF A FIVE-YEAR FISCAL REFORM PROGRAM.)

B. IF HIGHER TAXES ARE NEEDED (AND MOST OBSERVERS AGREE WITH THE SECRETARIAT THAT THEY ARE), WHAT ARE THE TRADE-OFFS IN TERMS OF INFLATION BETWEEN DIRECT AND INDIRECT LEVIES IN THE BELGIAN CONTEXT? IF BELGIUM WERE TO ADOPT A NEW TAX ON CAPITAL (AS ADVOCATED BY THE SOCIALIST PARTY AND WIDELY RUMORED TO BE IN THE OFFING), WOULD THE REVENUES REALIZED COMPENSATE FOR INCREASED CAPITAL FLIGHT AND POSSIBLE ADVERSE EFFECTS ON THE INVESTMENT CLIMATE? WHAT WOULD BE THE BUDGETARY AND INVESTMENT IMPLICATIONS OF LOWERING TVA ON INVESTMENT GOODS TO ZERO, THEREBY PUTTING BELGIUM ON THE SAME BASIS AT ITS EC

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PARTNERS?

C. ON EXCHANGE RATE POLICY, THE BELGIAN WILL BE ADAMANT THAT DEVALUATION OF THE BF IS NOT JUSTIFIED NOR IS ITS WISE IN TERMS OF THE COUNTRY,S RELIANCE ON IMPORTED MATERIALS AND THW WAGE INDEXATION SYSTEM. IN ITS DRAFT SURVEY, THE SECRETARIAT ACCEPTS THIS "VICIOUS CIRCLE" ARGUMENT. WE MIGHT NEVERTHELESS CONSIDER EXPLORING WITH THE BELGIANS IN THIS CONTEXT THE MILD BUT STEADY DETERIORATION OF THE COUNTRY.S TERMS OF TRADE AND CURRENT ACCOUNT POSITION. DO THESE DEVELOPMENTS REPRESENT A NATURAL AND CONTAINABLE REACTION TO CHANGES IN THE WORLD ECONOMY (AS THE SECRETARIAT SUGGESTS), OR SHOULD EXCHANGE RATE POLICY BE USED IN A MORE ACTIVE WAY TO MEET THE HIGH EXPORT GOALS OF THE BELGIAN 1976-80 PLAN? WHAT ARE THE IMPLICATIONS OF CURRENT EXCHANGE RATE POLICY FOR THE CASH FLOW (IF NOT COMPETITIVE) SITUATION OF FIRMS IN ITS WEAKEST EXPORT SECTORS, E.G., STEEL, PARTICULARLY GIVEN THE NEED FOR BREATHING SPACE TO RESTRUCTURE THESE SECTORS FOR THE FUTURE?

D. ON PP. 30-31 OF THE DRAFT SURVEY, THE SECRETARIAT URGES THAT BELGIUM CHANNEL GREATER PUBLIC INVESTMENT INTO LABOR-INTENSIVE INDUSTRIES, PARTICULARLY IN AILING SECTORS. WHAT WOULD BE THE CONOMIC, BUDGETARY AND INTERNATIONAL TRADE IMPLICATIONS OF SUCH A COURSE? WHAT OTHER SORT OF FORMS MIGHT RESTRUCTURING OF STEEL AND OTHER SICK INDUSTRIES TAKE, IN OR PARALLEL TO EC EFFORTS?

7. TENTATIVELY THE BELGIAN DELEGATION WILL BE HEADED BY J. VAN OVERBEKE OF THE PRIME MINISTER'S OFFICE. FSO LORE WILL ATTEND FROM EMBASSY BRUSSELS. RENNER

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